

Message Text

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ACTION ARA-10

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 6980

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

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AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALP

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FOR ARA/NC AND ECP

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TAGS: ENRG, EFIN, PFOL, VE, XK

SUBJECT: VENEZUELA SIGNS PETROLEUM FINANCING CONVENTION WITH
CENTRAL AMERICA

REF: CARACAS 12258

BEGIN UNCLASSIFIED

1. CARACAS NEWSPAPER EL UNIVERSAL PUBLISHED DECEMBER 15
ESSENTIAL ARTICLES OF CONVENTION SIGNED ON DECEMBER 14 BETWEEN
REPRESENTATIVES OF VENEZUELAN INVESTMENT FUND (VENFUND) AND
COSTA RICAN CENTRAL BANK WHICH ESTABLISHES MECHANISM FOR
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VENEZUELAN FINANCIAL ASSISTANCE TO THE CENTRAL AMERICAN COUNTRIES

TO COVER PART OF COST OF THEIR OIL IMPORTS. SIMILAR AGREEMENTS WERE SIGNED BY FUND WITH OTHER FOUR CENTRAL AMERICAN CENTRAL BANKS. PANAMA WAS NOT INCLUDED IN LIST.

2. ARTICLE ONE OF THE CONVENTION STATES THE PURPOSE OF VENFUND ASSISTANCE IS TO PROVIDE BALANCE OF PAYMENT SUPPORT THAT WILL PERMIT COSTA RICA TO CARRY OUT DEVELOPMENT PROGRAMS AND PROJECTS CONCERNING ITS NATURAL RESOURCES AND PROMOTE ITS EXPORTS.

3. TO EFFECT THIS PURPOSE CENTRAL BANK OF VENEZUELA WILL MAKE QUARTERLY DEPOSITS OF BOLIVARS AND U.S. DOLLARS IN EQUAL AMOUNTS INTO THE COSTA RICAN CENTRAL BANK, BEGINNING AT THE END OF THE FIRST QUARTER OF 1975. SAID DEPOSITS WILL BE MADE AGAINST ISSUANCE OF CERTIFICATES OF DEPOSIT BY COSTA RICAN CENTRAL BANK. CERTIFICATES WILL BE FOR SIX YEARS WITH INTEREST RATE NOT GREATER THAN THAT APPLIED BY THE INTERNATAMERICAN DEVELOPMENT BANK FOR ITS LENDING OPERATIONS FROM ORDINARY CAPITAL UNDER SIMILAR CONDITIONS.

4. AMOUNT OF DEPOSITS WILL BE EQUAL TO COST OF PETROLEUM EXPORTED TO COSTA RICA FROM VENEZUELA FOR ITS INTERNAL USE IN EXCESS OF SIX DOLLARS PER BARREL. DEPOSITS WILL THUS EQUAL DIFFERENCE BETWEEN QUARTERLY VOLUME OF OIL AT SIX DOLLARS PER BARREL AND COST OF THIS VOLUME AT REALIZED PRICE AT WHICH IT SOLD. TOTAL DEPOSITS WILL BE LIMITED IN THAT VOLUME CANNOT EXCEED 1974 LEVEL OF 7,300 B/D. REALIZED PRICE WILL BE CALCULATED AS AVERAGE QUARTERLY PRICE OF PETROLEUM BY THE PRIVATE COMPANIES WHICH SUPPLY COSTS RICA FROM VENEZUELA, AS DETERMINED BY GOV MINISTRY OF MINES AND HYDRO-CARBONS.

5. FUNDS DEPOSITED UNDER ABOVE FORMULA WILL DECREASE ANNUALLY BEGINNING WITH 1976, IN THAT QUANTITY OF BARRELS OF OIL ON WHICH THE CALCULATION IS BASED WILL DECREASE BY 16.66 PERCENT ANNUALLY. PROGRAM WILL TERMINATE IN 1980. AT THE REQUEST OF THE COSTA RICAN CENTRAL BANK, THE PERCENTAGE OF ANNUAL REDUCTION OF ALLOWABLE BARRELS OF PETROLEUM ON WHICH THE FORMULA IS BASED CAN BE CHANGED, BUT CAN NEVER BE LESS THAN 10 PERCENT ANNUALLY.

6. CLAUSES OF THE AGREEMENT REQUIRE THAT CONVERSION OF BOLIVARS BE BASED ON PREVAILING IMF RATES OF EXCHANGE, THAT CONVERTIBILITY AND REPATRIATION OF THE FUNDS BE GUARANTEED BY THE COSTA RICAN LIMITED OFFICIAL USE

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CENTRAL BANK, AND THAT PRIOR REPAYMENT TO VENFUND WILL BE MADE UPON REQUEST. THE VENFUND MAY ALSO DRAW ON DEPOSITS TO FINANCE PURCHASES OF GOODS AND SERVICES IN COSTA RICA NEEDED FOR VENFUND-FINANCED PROJECTS IN THIRD COUNTRIES.

7. OTHER CLAUSES ESTABLISH CRITERIA WHEREBY THE DEPOSITS MAY BE USED FOR LOCAL COST FINANCING AND WORKING CAPITAL WHERE COSTA RICA IS PARTICIPATING IN REGIONAL ECONOMIC INTEGRATION PROJECTS AND

PROGRAMS; LIMIT LONG-TERM LOANS FROM THE DEPOSITS TO 25 YEARS, WITH SIX YEARS GRACE PERIOD AND INTEREST CHARGES EQUAL TO IDB; PERMIT LOANS IN SUPPORT OF THE COSTA RICAN PROGRAM OF ASSISTANCE TO EXPORTS, INCLUDING OPERATIONS PRIOR TO THE EXPORT PROCESS; PERMIT FINANCIAL OPERATIONS FROM THE DEPOSITS WITH SUBDIVISIONS OF THE COSTA RICAN GOVERNMENT, GOVERNMENT CORPORATIONS, MIXED AND PRIVATE COMPANIES, AND LATIN AMERICAN MULTINATIONAL COMPANIES ESTABLISHED IN COSTA RICA.

8. COPY OF CONVENTION AS PUBLISHED IS BEING FORWARDED TO ACTION AND INFO POSTS BY IMMEDIATE TELEGRAM. END UNCLASSIFIED
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9. COMMENT: AGREEMENT IS INGENIOUS AND ADVANTAGEOUS TO GOV FOR SEVERAL OBVIOUS REASONS. FIRST, IT ACHIEVES EFFECT OF GIVING PREFERENTIAL PRICE TO POOREST LATIN COUNTRIES WHILE PRESERVING SEMBLANCE OF WORLD PRICE, SINCE DEPOSITS WILL THEORETICALLY HAVE TO BE REPAYED. IT DIFFUSES COMPLAINT THAT HIGH OIL PRICES ARE CAUSING BALANCE OF PAYMENTS PROBLEMS, SINCE THIS IS DIRECTLY WHAT DEPOSITS ARE INTENDED TO ALLEVIATE. THIRD, SINCE THE DEPOSITS ARE INTEREST BEARING, IT REPRESENTS ANOTHER INVESTMENT SOURCE FOR THE EXCESS VENEZUELAN PETRO-DOLLARS UNDER THE GUISE OF AID. FOURTH AND VERY IMPORTANT, IT LOCKS UP THE CENTRAL AMERICAN OIL MARKET OF 53,100 B/D (66,000 IF PANAMA INCLUDED) FOR THE NEXT FIVE YEARS, UNLESS THOSE COUNTRIES RECEIVE A BETTER OFFER ELSEWHERE. FIFTH, THE BALANCE OF PAYMENT AID WILL GIVE VENEZUELA AN IMPORTANT ECONOMIC INFLUENCE ON CENTRAL AMERICA. THE PROVISION WHEREBY VENEZUELA COULD REQUEST ADVANCE REPAYMENT OF THE DEPOSITS COULD BE PERSUASIVE IN CERTAIN SITUATIONS WHERE VENEZUELA MIGHT SEEK OTHER LATIN SUPPORT FOR ITS ECONOMIC POLICY OBJECTIVES.

10. FROM THE CENTRAL AMERICAN VIEWPOINT THE OFFER MUST SEEM ATTRACTIVE. ASSUMING THAT THE PRICE OF PETROLEUM TO CENTRAL AMERICA
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WILL BE AT LEAST 10 DOLLARS PER BARREL FOR FORESEEABLE FUTURE, DEPOSITS TO CENTRAL BANKS SHOULD ROUGHLY AVERAGE FOUR DOLLARS PER BARREL. IN CASE OF COSTA RICA, DEPOSITS SHOULD AVERAGE CLOSE TO \$30,000 DAILY, OVER \$2.6 MILLION QUARTERLY, AND OVER \$10.5 MILLION ANNUALLY. THE OTHER COUNTRIES WILL RECEIVE PROPORTIONATELY MORE SINCE ALL HAVE LARGER DAILY QUOTAS. EMBASSIES CAN CALCULATE THEIR OWN ESTIMATES ON BASIS OF FOLLOWING QUOTAS: EL SALVADOR - 11,400 B/D; GUATEMALA - 14,800 B/D; HONDURAS - 11,600 B/D; NICARAGUA - 8,000 B/D; AND PANAMA - 13,000 B/D. QUOTA FOR HONDURAS IS INTRIGUING SINCE IT FAR EXCEEDS LEVEL OF INTERNAL CONSUMPTION. IT IS INTERESTING TO SPECULATE WHETHER HONDURAS WILL RECEIVE WINDFALL BASED ON CAPACITY OF PUERTO CORTES REFINERY, RATHER THAN INTERNAL CONSUMPTION. END LIMITED OFFICIAL USE
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